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Amanda L Ciapas 08/01/2006 11:39:18 AM From DB/Inbox: Amanda L Ciapas

Cable  
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C O N F I D E N T I A L YEREVAN 01020

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C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 001020

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DEPT. FOR EUR/CARC AND EB/CBA

E.O. 12958: DECL: 07/26/2016  
TAGS: [ECON](#) [PREL](#) [PGOV](#) [EINV](#) [AM](#)  
SUBJECT: MERMOUD VISIT HIGHLIGHTS THE NEED FOR REGIONAL  
COOPERATION

REF: A) 05 YEREVAN 1988 B) YEREVAN 802

Classified By: Ambassador John M. Evans for reasons 1.4 (b.d).

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SUMMARY  
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11. (C) During his recent visit to Yerevan, State Department Special Representative for Commercial and Business Affairs Frank Mermoud targeted Armenia's perennial problems of customs and tax administration and corruption as critical areas in need of reform. In addition to his meetings with the President's Chief of Staff, the Minister of Trade and Economic Development and the Chairman of the Central Bank, Mermoud met with the Board of the American Chamber of Commerce in Armenia and many other representatives from the business community who voiced a striking openness to trading with regional partners in Turkey and Azerbaijan. At the close of his visit, Mermoud suggested that a conference for the U.S. Ambassadors and economic affairs officers working in the region might be one way to identify new avenues of economic and political cooperation. End Summary.

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CUSTOMS AND CORRUPTION ISSUES  
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12. (C) State Department Special Representative for Commercial and Business Affairs Frank Mermoud met with a wide-range of government officials and business representatives during his recent visit to Armenia, and problems with tax and customs administration were discussed at almost every meeting. Members of the American Chamber of Commerce in Armenia (AmCham) Board identified two specific problems at their

lunch with Mermoud and Ambassador Evans. The first problem was poor administration of the VAT system and particularly VAT refunds and the second was the question of direct trader input into the customs process. In a wide-ranging conversation, the AmCham Board members also discussed political developments in Armenia, the problem of corruption and the need for increased U.S.-based investment in the Armenian economy. These concerns were reiterated by all of the business representatives we met with from a small-scale mushroom farmer who described having to pay bribes to customs officials to Armenia's largest pharmaceutical producer and local Coca-Cola bottling company representatives who told us that poor management of the VAT refund process was preventing them from expanding their operations.

13. (C) Mermoud raised these issues with the Minister of Trade and Economic Development, the Presidential Chief of Staff Armen Gevorgian and the Chairman of the Central Bank. Gevorgian thanked Mermoud for raising these issues and said that American-Armenian cooperation was a priority for his government. He explained that the President of Armenia meets annually with representatives from the business community and was prepared to respond to any concerns. Gevorgian said that tax and customs administration were critical areas in the fight against corruption and that the National Assembly had recently passed a law requiring that most importers pay all their taxes at the border in an effort to minimize opportunities for corruption. (Note: Both the IMF and World Bank were against the passage of this law as they, and we, believe that corruption is a problem both in internal tax administration and at the border. End note.)

14. (C) Gevorgian acknowledged that customs is "still a problem." He noted that it was "strange that visitors always talk with businesses which are unhappy with customs," and claimed that 30 percent of importers qualified for "green line" imports and had no problems with customs at all. (Note: We later met with the largest pharmaceutical producer in Armenia, who is a "green-line" importer who told us the "green-line" computer database is often unavailable and that customs officials still request that he pay bribes to facilitate his shipments. End note.)

15. (C) Mermoud also discussed tax and customs with the Minister of Trade and Economic Development who said that these issues were more of a concern than we realized because for every problem the U.S. hears about there are ten to fifteen more of which we are not aware. He said that tax and customs reform were a top priority for the President. He mentioned, however, that American companies were in a better position to demand fair treatment from the government than local companies. He suggested that American companies should resist any inappropriate pressure from GOAM officials, a comment which may have been in reference to the Global Gold case described below.

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BRIBERY ALLEGATIONS THREATEN ARMENIA'S REPUTATION  
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16. (C) Mermoud met with the local representative of the American-based Global Gold Corporation, Ashot Boghossian, who recounted the company's troubling saga with the Ministry of Nature Protection (ref B). According to Boghossian, the Minister of Nature Protection asked the company for a USD 3 million bribe and, when the company refused to pay, threatened Boghossian and revoked one of the company's licenses for a mining property near Lake Sevan. Mermoud raised this case in detail with the President's Chief of Staff Armen Gevorgian saying that the case "had Washington's attention." He reviewed in specific detail the allegations made by the company and underscored the need for a thorough investigation of these allegations. Gevorgian recommended, echoing other members of the GOAM, that Global Gold take the matter to court. Mermoud explained that such allegations hurt Armenia's business reputation and that the government should investigate and respond to such allegations on its own initiative. Gevorgian also said that Global Gold's license

had been revoked for failure to develop the property in question. Mermoud said that Global Gold claimed that the property was under development and said that, rather than debating that specific question, his objective was to encourage the GOAM to fully investigate the allegations. Mermoud said that he would be pleased to host an event for Gevorgian and other GOAM representatives when they were next in Washington so that they could meet with representatives from the American business community and look for ways to strengthen economic ties between the two countries.

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CENTRAL BANK CHAIRMAN REQUESTS ASSISTANCE  
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17. (C) Meeting with the Chairman of the Central Bank of Armenia (CBA), Mermoud commended the Bank on its impressive management of Armenian fiscal and monetary policy. The Chairman said he very much appreciated the support of the U.S. but that additional assistance was needed. He outlined three areas where additional assistance would be helpful: support for the Bank's Financial Intelligence Unit and anti-money laundering activities, an extension of USAID support for the Armenian stock exchange and support for pension reform. He explained that the newly established Financial Intelligence Unit was not equipped to manage the databases needed to successfully complete its work. The Chairman particularly raised the question of data security saying that banks were reluctant to provide the Central Bank with customers' information because they were not confident that the information would be secure. The Chairman also asked that USAID continue its support for the Armenian stock exchange. He said that the exchange was like a half-completed bridge which would only benefit the Armenian people once it was finished. Mermoud suggested that he might be able to assist by organizing a roundtable with the Financial Services Forum in New York and a visit to the New York Stock Exchange for the Chairman. He also suggested a possible meeting between the Chairman and Under Secretary Josette Sheran Shiner during the World Bank/IMF meetings in Singapore.

----- STUDENTS EAGER TO WORK FOR THEMSELVES OR U.S. COMPANIES -----  
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18. (U) Mermoud met with a group of approximately 35 second-year business students at the American University of Armenia to share his experiences and learn their thoughts on the future direction of Armenian business development. There were more women than men in the group reflecting the fact that almost 70 percent of the students enrolled in the business program are women. In an open discussion, Mermoud touched on many of the key principles of successful business practice in the U.S. and counseled the students that they should not be afraid to try and not be afraid to fail in possible business ventures. Based on a show of hands, about 30 percent of the students were considering opening their own businesses and 30 percent were considering working for a U.S. or other international firm. Mermoud urged the students to develop their expertise with international firms, but then bring that knowledge back to Armenia where it could benefit the country as a whole.

----- ARMENIAN BUSINESS READY FOR REGIONAL TRADE -----  
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19. (C) In meetings with Armenian business representatives, including the AmCham, a local mushroom producer, financial services company Cascade Capital, a local pharmaceutical company and the local Coca-Cola bottling company, Mermoud regularly raised the question of openness to doing business with Turkey and Azerbaijan and was consistently told that Armenian business is ready for increased regional trade. The AmCham Board said that they were disappointed that, despite repeated invitations, no Azeri businesses attended the Regional Conference they had hosted in October 2005 (ref A).

They said that they were willing to participate in any future regional trade events.

¶10. (SBU) A striking level of openness to regional trade was evident at the mushroom farm Mermoud visited. The manager and part-owner of the farm (a former Muskie fellow) described how he had started production in 2003 with a small operation and grown to become Armenia's largest commercial producer of mushrooms, producing 15 tons of mushrooms each month. He explained how he was expanding his production base through a "contract farming" approach, supplying out-grower farmers with compost and spawn and buying back product. He exports mushrooms to Georgia and recently became a founding member of an exporters' association designed to enhance cooperation between exporters and improve the Armenian business climate. He described the "small-small" payments that he and most other exporters had to make to customs officials saying that while he knew it was not right to pay bribes, he was concerned about the future impact on his business if he failed to do so. The farm also recently became the regional supplier for one of the leading brands of American mushroom spores. The owners outlined his vision of the future where his company would be providing American spores to farmers in Georgia and Azerbaijan. He said that he was looking for partners who were "honest and paid on time" and did not care about ethnicity or other political issues.

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COMMENT: TIME FOR U.S. AMBASSADORS TO MEET?  
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¶11. (C) The USG and other donors have been working on the issues of tax and customs reform for some time, but often complain that a lack of political will hampers reform efforts. Mermoud's visit helped underscore critical U.S. messages in these areas and to more fully identify the striking level of openness on the part of Armenian businesses to increased regional trade. Recognizing the link between increased regional trade and political integration, Mermoud suggested that it might be useful to have a meeting of U.S. Ambassadors and economic affairs officers covering Armenia, Georgia, Azerbaijan and Turkey. He said that such a meeting could be paired with a regional meeting of the area AmChams or other business associations and should probably be held in Turkey or Georgia so that both Armenians and Azeris would be able to participate. We agree that such a meeting would be helpful and hope to move forward on this suggestion in the near future.

¶12. (U) Special Representative for Commercial and Business Affairs Frank Mermoud has cleared this cable.

EVANS